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PRO FORMA ANNUAL ACCOUNTING STATEMENT

The information on pages 38 to 43 does not form part of the global results as required under the Lloyd's Sourcebook issued by the Financial Services Authority under the Financial Services and Markets Act 2000. It is included in order to present the aggregated results of the Lloyd's market on a basis that is broadly comparable with general insurance companies.

Under current legislation, Lloyd's is obliged to account on a three year basis as at 31 December 2004. While this forms the basis of the distribution of profits and collection of losses, it does mean that the market results are not readily comparable with those of insurance companies. Lloyd's therefore requires syndicates to provide results on an annual accounting basis, as well as the statutory three year basis.

In the balance sheet, the shareholders' funds attributable to equity interests, or capital and reserves, are represented by 'Syndicate profits/(losses) due to/(from) members', 'Members' Funds at Lloyd's', 'Central Fund Balance' and 'Corporation Reserves'. In addition, Lloyd's issued subordinated loan notes in 2004 which represent capital for meeting policyholder claims. Taken together with the subordinated loan notes they are referred to in the pro forma balance sheet as 'Capital, reserves and subordinated loan notes'. Members' funds at Lloyd's are described in detail in the section 'Security underlying policies issued at Lloyd's' (pages 55 to 59). 'Syndicate profits/(losses) due to/(from) members' represents syndicate results declared on an annual accounting basis, which have not yet been distributed to/(or collected from) members. 'Central Fund Balance' and 'Corporation Reserves' represent the net assets of the Central Fund and Corporation respectively (pages 108 and 83 respectively). These items reflect key differences in the capital structure between the Lloyd's market and unitary insurance companies.

While Lloyd's considers the pro forma results presented to be a reasonable representation of the financial results for the calendar year 2004, it is possible that the market result would be different if a full annual accounting regime were adopted.

There is still a substantial degree of uncertainty attaching to the ultimate gross and net liabilities arising from the catastrophic loss on September 11, 2001 though the market's estimates have shown considerable stability on a gross and net basis. A number of syndicate auditors' opinions reflect this uncertainty, although all of them were unqualified. This is to be expected, since Lloyd's, together with the rest of the industry, is faced with uncertainties arising from related legal disputes, reinsurance collectability issues and the emergence of further information as well as the impact of future economic conditions when establishing reserves in respect of this loss.

Lloyd's has made central adjustments in preparing the pro forma annual accounting results in order that these results may bear more realistic comparison to general insurance companies. They include a notional investment return on funds at Lloyd's and a reflection of the transactions and net assets of the Corporation of Lloyd's and the Lloyd's Central Fund, including the financial effect of the Central Fund insurance settlement. These adjustments are explained in note 1C on page 40.

REPORT OF ERNST & YOUNG LLP TO THE COUNCIL OF LLOYD'S ON THE PRO FORMA ANNUAL ACCOUNTING STATEMENT

We have reviewed the balance sheet, technical and non-technical accounts, segmental reporting and notes 1-3 (taken together the Pro Forma Annual Accounting Statement – PFAAS) in respect of business transacted by Lloyd's for the year ended 31 December 2004.

The PFAAS, which has been prepared under the historical cost convention (as modified by the valuation of investments at market value) includes the results and the financial position at 31 December 2004 of all syndicates which transacted business during the year and is based on returns from those syndicates as set out in notes 1A and 1B, together with central adjustments in relation to the capital base, investment income and expenses as set out in note 1C.

This report is made solely to the Council of Lloyd's in accordance with its instructions to us set out under 'Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP' below. Our work has been undertaken so that we might state to the Council those matters which we are required to state in this report in accordance with the Council's instructions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressees of this report for our work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council of Lloyd's and Ernst & Young LLP

The Council of Lloyd's is responsible for the preparation of the PFAAS.

You have instructed us to form an opinion on whether the PFAAS has been drawn up in accordance with the basis of preparation notes and presents a reasonable representation of the market results and state of affairs on an annual accounting basis broadly comparable with general insurance companies and to report our opinion to you.

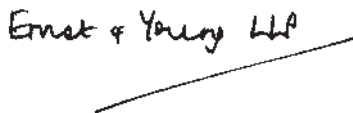
Basis of review opinion

Our review consisted principally of making enquiries of Lloyd's and applying analytical procedures to the financial information and underlying financial data. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions as stated in the PFAAS. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. In addition, the PFAAS has been compiled from syndicate returns on which syndicate auditors have given review opinions (on which we have relied absolutely) as described in note 1B. Those auditors' reports indicate that the returns are free from material misstatement. We have not audited those returns. Further, the central adjustments set out in note 1C have not been audited. Consequently, we do not express an audit opinion on the financial information set out in the PFAAS.

We also read the PFAAS in order to assess whether it expresses clearly the uncertainties inherent in the preparation of the PFAAS.

Opinion

On the basis of the review set out above, in our opinion, the PFAAS has been drawn up in accordance with the basis of preparation notes and presents a reasonable representation of the market results and state of affairs on an annual accounting basis broadly comparable with general insurance companies.



Ernst & Young LLP, London

6 April 2005

PRO FORMA ANNUAL ACCOUNTING RESULT

for the year ended 31 December 2004

	2004 £m	2004 £m	2003 £m	2003 £m
Pro forma annual accounting technical account				
Gross premiums written – continuing operations		14,402		15,702
– discontinued operations		311		720
		14,713		16,422
Outward reinsurance premiums		(2,908)		(4,172)
Premiums written, net of reinsurance		11,805		12,250
Change in the gross provision for unearned premiums	290		(246)	
Change in provision for unearned premiums, reinsurers' share	(306)		(293)	
		(16)		(539)
Earned premiums, net of reinsurance		11,789		11,711
Allocated investment return transferred from the non-technical account		536		445
		12,325		12,156
Claims paid				
Gross amount	8,281		9,204	
Reinsurers' share	(2,981)		(3,661)	
		5,300		5,543
Change in provision for claims				
Gross amount	1,556		(108)	
Reinsurers' share	811		1,262	
		2,367		1,154
Claims incurred, net of reinsurance		7,667		6,697
Acquisition costs	2,801		3,038	
Administrative expenses	900		854	
Loss on exchange	51		30	
Operating expenses		3,752		3,922
Balance on the technical account for general business		906		1,537
Attributable to:				
Continuing operations		1,669		1,866
Discontinued operations		(763)		(329)
Total		906		1,537
Pro forma annual accounting non-technical account				
Balance on the technical account for general business		906		1,537
Syndicate investment return	536		445	
Investment return on funds at Lloyd's	487		448	
Other investment returns and other income	148		127	
	1,171		1,020	
Allocated investment return to the technical account	(536)		(445)	
		635		575
Other expenses		(184)		(220)
Pro forma profit on ordinary activities before tax		1,357		1,892

There are no recognised gains or losses in the year other than those dealt with in the technical and non-technical accounts.

PRO FORMA ANNUAL ACCOUNTING BALANCE SHEET

as at 31 December 2004

	2004 £m	2004 £m	2003 £m	2003 £m
Financial investments				
Shares and other variable yield securities	1,753		1,626	
Debt securities and other fixed income securities	14,992		12,221	
Participation in investment pools	407		256	
Loans and deposits with credit institutions	890		704	
Deposits with ceding undertakings	9		14	
Members' funds at Lloyd's	9,622		9,659	
Other investments	34		23	
Total investments		27,707		24,503
Reinsurers' share of technical provisions				
Claims outstanding	9,001		9,959	
Unearned premiums	875		1,221	
		9,876		11,180
Debtors				
Debtors arising out of direct operations	3,250		3,694	
Debtors arising out of reinsurance operations	3,654		3,972	
Other debtors	402		469	
		7,306		8,135
Other assets				
Tangible assets	15		15	
Cash at bank and in hand	2,325		2,140	
Overseas deposits	1,330		1,250	
Other	74		70	
		3,744		3,475
Prepayments and accrued income				
Accrued interest and rent	73		39	
Deferred acquisition costs	1,438		1,467	
Other prepayments and accrued income	104		104	
		1,615		1,610
Total assets		50,248		48,903
Capital, reserves and subordinated loan notes				
Members' funds at Lloyd's	9,622		9,659	
Syndicate profits/(losses) due to/(from) members	1,363		(295)	
Central Fund balance	556		711	
Corporation reserves	122		70	
Capital and reserves	11,663		10,145	
Subordinated loan notes	506		-	
		12,169		10,145
Technical provisions				
Provision for unearned premiums	6,769		7,335	
Claims outstanding	28,144		27,758	
		34,913		35,093
Deposits received from reinsurers		37		92
Creditors				
Creditors arising out of direct insurance operations	487		446	
Creditors arising out of reinsurance operations	1,742		2,264	
Amounts owed to credit institutions	7		14	
Other creditors including taxation	703		718	
		2,939		3,442
Accruals and deferred income		190		131
Total liabilities		50,248		48,903

Signed on behalf of the Council of Lloyd's on 6 April 2005



Lord Levene of Portsoken, Chairman



Nick Prettejohn, Chief Executive Officer

NOTES TO THE PRO FORMA ANNUAL ACCOUNTING STATEMENT

as at 31 December 2004

1. Basis of preparation notes

A Basis of reporting

The purpose of the Pro Forma Annual Accounting Statement (PFAAS) is to present a technical and a non-technical account and balance sheet information on a basis broadly comparable with the general insurance industry. The result of the Lloyd's market on an annual accounting basis for the year ended 31 December 2004 shown in the PFAAS has been determined by aggregating the results as reported separately by all syndicates in their returns. The result does not present a consolidated view of the results of Lloyd's business taken as a single entity and, in particular, it does not eliminate inter-syndicate reinsurances. The result presented is before tax and does not include any adjustments that would be necessary to disclose a post-tax position.

The PFAAS has been prepared under the historical cost convention as modified by the valuation of investments at market value.

B Aggregation process

The PFAAS has been compiled from syndicate returns prepared by managing agents and reported on by syndicate auditors, and other information for central adjustments. The reports by syndicate auditors on the syndicate returns are required to state whether those returns have been properly prepared in accordance with the instructions issued by Lloyd's and are free from material misstatement. Relevant accounting policies which were included within the instructions are set out in note 2 on page 41.

C Central adjustments

Lloyd's has made central adjustments in preparing the PFAAS. The objective of these adjustments is to present the results on a basis broadly comparable to other general insurance companies.

- Return on funds at Lloyd's: Syndicates' investment return has been wholly credited to the technical account. A notional investment return on average funds at Lloyd's during the period has been included in the non-technical account. This notional investment return is based on returns applicable to different classes of assets held as funds at Lloyd's. This adjustment resulted in the inclusion of an investment return of £487m (2003: £448m) in the non-technical account.
- Inclusion of the transactions and net assets of the Lloyd's Central Fund and the Corporation of Lloyd's: The Central Fund is described in the section 'Security underlying policies issued at Lloyd's' but in summary has been established to meet policyholders' claims in the event of members being unable to meet their underwriting liabilities. The PFAAS result for the Lloyd's market includes the transactions of the Central Fund, including the financial impact of the Central Fund insurance settlement. The financial statements of the Corporation of Lloyd's demonstrate its income and expenditure and financial position to the members. The PFAAS result reflects the overall performance of the market and all its activities and has, therefore, been adjusted to include the Corporation's results. These adjustments have resulted in a net loss of £3m (2003: £590m profit) in the technical account and a net loss of £36m (2003: £93m loss) in the non-technical account.
- Funds at Lloyd's: Included in the balance sheet are members' funds at Lloyd's. These are described in more detail on page 56 but in summary the assets in funds at Lloyd's must be readily realisable and may include letters of credit and bank and other guarantees.

D Variability

Calendar year movements in reserves are based upon best estimates as at 31 December 2004 taking into account all available information as at the balance sheet date. These estimates will be subject to variability until the date at which the underlying claims are settled. Such changes in best estimate will be reflected in the technical account of the year in which they occur.

E Syndicate profits/(losses) due to/(from) members

The syndicate profits/(losses) due to/(from) members represents syndicate results declared on an annual accounting basis, which have not yet been distributed to members. It excludes the funds at Lloyd's which have been lodged by members in support of their underwriting and the central assets which are disclosed separately.

F Discontinued operations

Discontinued operations represent syndicates that have ceased trading and have no natural successor syndicate. The analysis does not include discontinued business lines within ongoing syndicates.

The continuing/discontinued analysis of gross premiums written and balance on the technical account for the 2003 comparatives have been amended to reflect those syndicates that were classified as continuing at 31 December 2003 but which, at 31 December 2004, are classified as discontinued.

G September 11

Included in the reserves are amounts relating to losses arising from the events of 11 September 2001. Whilst the reserves for September 11 losses are based upon best estimates as at the balance sheet date they create an additional level of uncertainty over and above that normally associated with reserving for insurance business.

2. Accounting policies notes

Managing agents have completed the syndicate returns using the principles set out in the accounting policies below. These policies, as regards underwriting transactions, are consistent with the recommendations of the Statements of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers modified to reflect the unique structure of Lloyd's.

Premiums

Gross premiums written represent premiums on business incepting during the year together with adjustments for premiums written in previous accounting periods. Gross premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

Unearned premiums

The provision for unearned premiums represents that part of gross premiums written and the reinsurers' share that is estimated to be earned after the balance sheet date. Premiums are deemed to be earned over the period of cover under each policy having regard to the nature of the business written and the related spread of risk.

Deferred acquisition costs

Acquisition costs are deferred and amortised over the period in which the premium is earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. Such costs include brokerage and expenses which relate to the acquisition of business.

Claims

Claims incurred comprise claims and claims handling expenses paid in the year and the movement in provision for outstanding claims including an allowance for the cost of claims incurred as at the balance sheet date but not reported. Included in the provision is an estimate of the cost of handling outstanding claims and claims incurred as at the balance sheet date but not reported. Explicit discounting of outstanding claims, including the costs of handling those claims, has been excluded.

Unexpired risk provision

A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the period end. Syndicates made the assessment of whether an unexpired risk provision was necessary based on the business of the syndicate as a whole across all years of account. The provision for unexpired risks is included within technical provisions in the balance sheet.

Profit commission

Profit commission due to the managing agent is recognised pro rata to the recognition of underwriting results on an annual basis.

Exchange rates

Syndicate assets and liabilities expressed in convertible currencies are translated at the rates of exchange ruling at 31 December. Income and expenditure transactions are translated using average exchange rates. Underwriting transactions in other foreign currencies are included in the accounts at historical rates. All differences on the translation of foreign currency amounts are dealt with in the technical account.

Investments

Listed investments are shown at market value.

Investment Return

The investment return comprises investment income, investment gains less losses realised and unrealised, and is net of investment expenses and charges. That element of the investment return that arises from underwriting activities has been transferred to the technical account.

As noted in note 1C, the non-technical account includes a notional return on funds at Lloyd's. The calculation of this figure is explained in note 1C.

NOTES TO THE PRO FORMA ANNUAL ACCOUNTING STATEMENT continued

as at 31 December 2004

Taxation

No provision has been made for United Kingdom taxation on the result shown in the underwriting account.

	2004 £m	2003 £m
3. Capital, reserves and subordinated loan notes		
The movements in capital, reserves and subordinated loan notes were as follows:		
Capital and reserves at 1 January	10,145	7,509
Profit before tax	1,357	1,892
Net (profits paid)/cash calls received ⁽¹⁾	793	823
Net purchases/(sales)/revaluation of FAL ⁽²⁾	(524)	243
Undertakings/drawdowns to meet members losses ⁽³⁾	(152)	(190)
Taxation credit/(charge) ⁽⁴⁾	64	(89)
Exchange difference	(23)	(44)
Unrealised gains/(losses) during the year ⁽⁵⁾	3	1
Capital and reserves at 31 December	11,663	10,145
Issue of subordinated loan notes	506	–
Capital, reserves and subordinated loan notes at 31 December	12,169	10,145

(1) Net (profits paid)/cash calls received represent the aggregate of syndicate profits paid to, and cash calls to fund syndicate losses received from, members in 2004. The net figure is an overall receipt as members funded their losses on the 2001 (2000) year of account that closed at 31 December 2003 (2002).

(2) Net purchases/(sales)/revaluation of FAL represents the movement in members' funds at Lloyd's, including actual investment return on FAL where retained, new monies provided, funds withdrawn, and the notional return of £487m (2003: £448m) reported in the non-technical account.

(3) Undertakings/drawdowns to meet members losses represent payments and provisions made in the Central Fund financial statements for losses of insolvent members (see notes 8 and 13 of the Central Fund financial statements). The undertakings/drawdowns figure is gross of the credit for £17m (2003: £110m) insurance recoveries within the Central Fund.

(4) Taxation credit/(charge) represents the current and deferred tax of the Corporation (note 10 to the Corporation financial statements) and of the Central Fund (note 11 of the Central Fund financial statements).

(5) Unrealised gains/(losses) during the year represent the unrealised gains on the revaluation of other investments and on the disposal of subsidiaries as reported in the Corporation financial statements (see notes 14 and 21 respectively in the Corporation financial statements).

(6) Following the closure of the 2002 year of account at 31 December 2004, there will be a significant transfer of syndicate profits to members in 2005, although this will be offset to some degree by further cash calls by syndicates to fund losses on 2001 and prior years of account. Following the amendments to the Release Test, introduced for 2005, the profits arising on the 2002 year of account are expected to generate a significant release of profits from Lloyd's.

SEGMENTAL REPORTING

as at 31 December 2004

	Direct										Total £m	
	Accident and health £m	Motor (third party liability) £m	Motor (other classes) £m	Marine aviation and transport £m	Fire and other damage to property £m	Third party liability £m	Life £m	Other £m	Total direct £m	Re- insurance accepted £m		
2004												
Gross premiums written	465	129	885	2,219	3,008	3,331	85	251	10,373	4,340	14,713	
Gross premiums earned	460	127	911	2,273	3,079	3,557	40	289	10,736	4,267	15,003	
Gross claims incurred	331	93	644	1,222	1,862	2,678	20	420	7,270	2,567	9,837	
Gross operating expenses	137	31	207	574	840	898	15	79	2,781	971	3,752	
Gross technical result	(8)	3	60	477	377	(19)	5	(210)	685	729	1,414	
Reinsurance balance	(15)	8	(6)	(185)	(241)	(136)	(4)	66	(513)	(531)	(1,044)	
Net technical result	(23)	11	54	292	136	(155)	1	(144)	172	198	370	
Allocated investment return											536	
Balance on technical account											906	
Net technical provisions	890	330	1,396	2,945	3,520	8,373	93	789	18,336	6,701	25,037	
2003												
Gross premiums written	470	148	986	2,329	3,878	4,135	68	374	12,388	4,034	16,422	
Gross premiums earned	518	179	1,107	2,323	3,662	3,843	64	421	12,117	4,059	16,176	
Gross claims incurred	376	155	741	997	1,461	2,939	27	323	7,019	2,077	9,096	
Gross operating expenses	177	42	262	583	879	908	33	96	2,980	942	3,922	
Gross technical result	(35)	(18)	104	743	1,322	(4)	4	2	2,118	1,040	3,158	
Reinsurance balance	(48)	14	11	(477)	(800)	(83)	(2)	(76)	(1,461)	(605)	(2,066)	
Net technical result	(83)	(4)	115	266	522	(87)	2	(74)	657	435	1,092	
Allocated investment return											445	
Balance on technical account											1,537	
Net technical provisions	1,131	507	1,228	2,454	3,187	8,377	66	1,005	17,955	5,958	23,913	